

Review: 4228
Statewide Single Audit
Year Ended June 30, 2004
Illinois State Board of Education

- 4-06. Review the current process for reporting financial information to the State Comptroller (IOC) and implement changes necessary to ensure the accurate and complete submission of forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. State Board of Education (SBE) year-end procedures should include monitoring federal program expenditures more timely so they can identify and notify the State's auditors of all programs requiring an audit in accordance with OMB Circular A-133. (Repeated 2002)**

Findings: The State Board of Education (SBE) does not have an adequate process to ensure that financial information submitted to the State Comptroller is accurate and timely. As a result of this inadequate process, an additional major program administered by SBE that was required to be audited was not identified until November 2004 resulting in insufficient time to complete the audit procedures within the required timeframe.

Response: The Agency agrees that the reporting of federal expenditures should be timely and accurate. The Agency will work towards improving its own internal processes and procedures, as well as gladly participate with the Illinois Office of the Comptroller, the Office of the Auditor General, and other State agencies in an effort to develop any potential improvements to the overall process. In addition the Agency will review its procedures for the identification of all major programs and develop and document the methodology to ensure future programs are identified in a timely manner.

Updated Response: Accepted/Implemented. The Agency continues to make every effort to report federal expenditures in a timely and accurate manner. For FY04, the GAAP packages were filed by the due date and all adjustments were completed by December 20, 2004. Agency staff attended the FY05 GAAP training as it was offered by the Office of the Comptroller and are in the process of completing the GAAP and Financial Reporting Process for FY05. To date, all GAAP project deadlines have been met.

The Agency has implemented improved procedures for identification of major programs. All major programs were identified in early July 2005 and the Agency continued weekly monitoring of federal grant expenditure reports from the end of the fiscal year through the end of the lapse period to ensure that all programs that might become major would be identified as timely as possible. For FY06, additional improvements to the methodology will include an analysis at quarterly intervals throughout the fiscal year, with monthly

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analyses occurring during the last quarter of the fiscal year. Updated analyses will be sent to the A-133 auditors to regularly apprise them of major program status.

04-45. Review the process and procedures in place to ensure compliance with the State Plan.

Findings: SBE did not administer certain activities of its Reading First program in accordance with provisions outlined in its State Plan.

The State Plan details SBE's specific goals and activities for improving reading instruction and delivering reading services to eligible students in Kindergarten through 3rd grade. The State Plan identifies the specific mechanisms that the SBE will use to achieve its Reading First goals. The auditors noted that SBE has not implemented the activities outlined in its State Plan as follows:

- SBE did not employ a full-time Reading First program coordinator in 2003-2005. SBE employed only five of the required eight principal consultants to complete the professional development, technical assistance, and monitoring function to school districts.
- SBE did not establish the Illinois Reading First Center intended to develop materials, research programs and advise Reading First staff with respect to improving support of Illinois Reading First educators.
- SBE did not define the necessary qualifications in the State Plan for early reading specialists at the ISCs.
- SBE did not establish Reading First Academies for 3rd grade teachers within the required time frames.
- SBE did not systematically include Special Education teachers (K-12) in the K-3rd Reading First Academies.
- SBE did not initiate activities to strengthen and enhance teacher preparation in scientifically based reading instruction at public institutions of higher education.

SBE officials stated these conditions were the result of a lack of resources and a loss of institutional knowledge due to retirement and transfers.

Response: The Department agrees with the recommendation and has reviewed the program and has taken several actions to correct the deficiencies noted above and to ensure compliance with the State Plan in the future. The Agency is working with the National Reading First Technical Assistance Center to draft an amendment to the State Plan and develop and implement improved processes and procedures. Specific corrective actions that have been implemented include:

- The Agency has recently hired 4 principal consultants into the Reading First Program and plans to hire additional Reading First staff.
- The planned amendment to the State Plan will eliminate the Illinois Reading First Center plans.
- For fiscal year 2006 the definitions for the necessary qualifications for early reading specialists at the intermediate service centers will be in place.

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- The Reading First Academies for teachers have been established and should be on track.
- For fiscal year 2006 Special Education teachers will be systematically included in the academies.
- Also, in fiscal year 2006 several activities will be implemented to strengthen teacher preparation in scientifically based reading instruction at public universities and colleges.

Updated Response: These items from the recommendation are implemented.

- The Agency has now hired 6 consultants for Reading First and plans to hire 2 more in FY06.
- Reading First Academies were held statewide throughout FY05; several were facilitated through the Regional Offices of Education.

These items from the recommendation are partially implemented.

- The amendments to the State Plan are being finalized and will be submitted to the USDE in October 2005 and the final implementation date will wait upon USDE approval of the amendments.
- The definitions for qualifications for early reading are contained in the aforementioned amendments to the State Plan to be submitted to the USDE in October 2005.
- The inclusion of Special Education Teachers is being accomplished through a variety of means. The FY06 RFP contains specific inclusion language, the Reading First newsletter contains information about the inclusion of Special Education teachers, and the current power point presentations include this as well.
- The Agency is currently preparing a contract with a professional from Western Illinois University to facilitate discussions with State universities and colleges with pre-service programs. The discussions are to determine how best to strengthen teacher preparation in scientifically based reading instruction.

04-46. Review current process for performing eligibility determinations and awarding competitive grants to subrecipients and consider changes necessary to ensure all determinations are performed and reviewed by an appropriate level of management who is knowledgeable of the program requirements. SBE should also maintain adequate documentation in subrecipient files including signed applications, award letters, and approved budgets.

Findings: SBE did not perform eligibility determinations for subrecipients receiving federal funds under the Reading First State Grants program during FY04.

The State Plan for the Reading First State Grants program requires the State to perform eligibility determinations for subrecipients on an annual basis. When a subrecipient is determined eligible, individual grants are awarded on a competitive basis using a number of factors defined in the State Plan. During the auditors' testing of the eligibility of

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subrecipients during FY04, they noted SBE did not perform eligibility determinations. Specifically, SBE awarded grants on a competitive basis to the same subrecipients as the previous year without consideration of whether the subrecipients met the eligibility criteria.

The auditors also noted SBE did not maintain adequate controls or documentation in the awarding of competitive grants to subrecipients. During the test work over all 42 subrecipients of the Reading First State Grants program, five applications from subrecipients were not signed and approved by SBE personnel, 11 files did not contain a signed award letter; and four initial/amended budgets were not signed and approved by SBE personnel. SBE passed through more than \$30 million to subrecipients of Reading First State Grants program.

Response: The Agency agrees with the finding. The Agency has worked with the National Reading First Technical Assistance Center and the USDE to improve its processes for determining eligibility and awarding funds. The division has also implemented improved documentation retention and file maintenance procedures.

Updated Response: These items are partially implemented.

- In its discussions with the USDE, the Agency obtained confirmation that the intent of the language in the State Plan is not to require that district eligibility be re-determined every year. The Plan's intent is that district eligibility only needs to be determined the first year of the three-year grant funding cycle. The Agency has provided the auditors with the confirmation from USDE. As a result, the auditors have requested the supporting documentation for the original FY03 district eligibility determinations, as this eligibility list would have been in effect for FY04 as well. The Agency is working to gather the supporting data and analyses and plans to provide it to the auditors in October. The Curriculum and Instruction Division is also developing the methodology for determining eligibility for the next grant funding cycle. The estimated completion date is October 2005.
- For FY06, the Curriculum and Instruction Division has developed an application checklist to be contained in the application files to better ensure that the applications are complete.

04-47. Utilize either a cyclical or risk based approach for selecting subrecipients to perform on-site monitoring procedures. If a risk based approach is selected, SBE should establish written procedures including clearly defined risk criteria and required documentation to ensure risk assessments are properly performed. (Repeated-2000)

Findings: SBE does not have an adequate process for selecting subrecipients for on-site reviews under the Title One Grants to Local Educational Agencies, Special Education Cluster, Vocational Education Basic Grants to State, Reading First State Grants, and Improving Teacher Quality State Grants program (collectively referred to as the Education programs).

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During FY04, SBE implemented a new method for selecting subrecipients and related Education programs to perform on-site program and fiscal monitoring which inappropriately combines elements of both cyclical and risk-based approaches. This approach results in certain programs that will not be reviewed for several years, if ever.

Specifically, SBE placed each subrecipient receiving funds into a three-year cycle that dictated the year in which SBE would perform on-site monitoring procedures. After being placed into a cycle, SBE selected the programs that would be reviewed using a risk based approach with the objective of reviewing programs that comprise at least 50% of the federal expenditures for an individual subrecipient.

Response: The Agency is in partial agreement with the recommendation above. The Agency plans to continue to combine the elements of cyclical and risk-based approaches, as we believe this can provide more optimal monitoring coverage than a single approach methodology. To reduce the risk of subrecipient or a federal program not receiving appropriate oversight, the following changes will be incorporated into the upcoming monitoring plans:

The External Assurance Division will complete two risk analyses on an annual basis. The first risk analysis will be for the determination of High-Risk subrecipients for whom an annual on-site visit will be conducted. Medium and Low-Risk subrecipients will receive on-site visits on a cyclical basis. The second risk analysis will be conducted for the purpose of developing a universal monitoring plan for all subrecipients scheduled for on-site visits. High-Risk programs will be monitored annually. Medium and Low-Risk programs will be scheduled for on-site review on a cyclical basis. In addition, allowance for referrals will be built into the monitoring plans.

Risk criteria will be developed and documented and the above-mentioned risk analyses will be appropriately documented in a spreadsheet.

Auditors' Comment: As discussed in the finding above, we do not believe it is possible to integrate a cyclical and risk based approach for selecting subrecipients for on-site reviews.

Updated Response: Partially Accepted/Implemented for FY06. The Agency agrees that risk criteria and assessments should be adequately documented and for FY06 all risk criteria, risk assessments, and the overall monitoring plan and approach have been documented.

The Agency plans to continue to utilize elements of both risk and cycle-based approaches, as it believes that this can provide more optimal coverage. To reduce the risk of a subrecipient or a federal program not receiving appropriate oversight, the following changes have been incorporated into the upcoming monitoring plan:

- The External Assurance Division will complete two risk analyses on an annual basis. The first risk analysis will be for the determination of High-Risk sub-recipients for whom an annual on-site visit will be conducted. Medium and Low-Risk sub-recipients will receive on-site visits on a cyclical basis. The second risk analysis will

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be conducted for the purpose of developing a universal monitoring plan for all sub-recipients scheduled for on-site visits. High-Risk programs will be monitored annually. Medium and Low-Risk programs will be scheduled for on-site review on a cyclical basis. In addition, allowances for referrals will be built into the monitoring plans. This is in place for the FY06 monitoring cycle, which began on August 1, 2005.

(The Agency completed the last few months of the FY05 cycle under the previous monitoring plan to effectively complete the FY03 through FY05 three-year monitoring plan.)

4-48. Review the process and procedures in place to prepare the Accountability Report. Additionally, the report and supporting documentation (schedules) should be reviewed by an individual who is independent of the preparation process and is knowledgeable of the reporting requirements. (Repeated-2003)

Findings: SBE did not accurately prepare the fiscal year 2003 "Accountability Report Consolidated Annual Performance, Accountability, and Financial Status Report" (Accountability Report). This report contains data to be used in determining whether SBE met its adjusted performance levels for the following core indicators: 1) attainment of academic and vocational skills; 2) attainment of diploma or credential; 3) placement and retention; and 4) participation in, preparation for, and completion of program leading to non-traditional occupation, and contains narrative, status of funds, and performance indicators. The auditors noted the following inaccuracies in reporting the Status of Funds:

- State Programs expenditures (total) were overstated by \$473,440;
- Other expenditures (total) were understated by \$831,755; and
- Equipment in Subrecipient Funds expenditures was overstated by \$32,555.

SBE did not reconcile the amounts included in the Accountability Report to supporting documentation.

Response: The Agency agrees with the finding and has reviewed and improved its processes and procedures for the preparation and submission of the Accountability reports. To correct the inaccuracies in the interim report and further ensure the submission of accurate data for all Accountability Reports, the Agency has reviewed and corrected the spreadsheet formulas used for the report and implemented a review process.

Updated Response: Partially Implemented. The Agency did correct and review the spreadsheet formula for the report submitted in December 2004. The Division of Funding and Disbursements prepares the Financial Status Report and the Division of Career Development and Preparation reviews and submits the Accountability reports to the Office of Vocational and Adult Education. The Accountability report is submitted electronically. The final review of the reports submitted in December 2004 was not fully documented, as it is often difficult to determine what constitutes adequate documentation of

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reconciliation/review when both electronic and paper processes are involved. For the Accountability Reports due to be submitted in December 2005, a new review process is currently being developed. The review process and determination of adequate documentation will be reviewed by Funding and Disbursements, in conjunction with assistance from Internal Audit and the audit firm's guidance. This should ensure that adequate internal controls and documentation are in place.

4-49. Review the process and procedures in place to prepare the Annual Performance Report. Additionally, an individual who is independent of the preparation process and is knowledgeable of the reporting requirements should review the report and supporting documentation.

Findings: SBE did not submit the required student assessment data in its FY03 Annual Performance Report. This report contains data to be used in determining whether SBE met the required performance levels under the program. The auditors noted the following missing student performance data:

- Number and percentage of kindergarten and first grade students meeting or exceeding the spring target score for the Illinois Snapshot of Early Literacy (ISEL) for alphabet recognition, story listening, phonemic awareness, one-to-one matching, letter sounds, developmental spelling (phonics), word recognition (phonics) and graded passage reading (phonics, fluency, vocabulary and comprehension), by school,
- Number and percentage of second grade students meeting or exceeding the spring target score for the ISEL for spelling, word recognition, oral passage, comprehension, fluency and extended response, by school,
- Number and percentage of kindergarten and first grade students meeting or exceeding the spring ISEL-K/1 target scores, disaggregated by economically disadvantaged status, ethnicity, special education status, and gender, and
- Reading First special education referral rates, by school district.

Response: The Agency agrees with the recommendation and has reviewed its processes and procedures for preparing the Annual Performance Report and still retains the services of the contractor to assist in the collection of the required data. In addition, the Agency has hired 4 principal consultants in the Reading First program who also assist in the efforts to ensure that there is a collection system in place for every required data field. Both the division manager and consultants continually review the collection process and the division manager will perform a final review of the report upon its completion.

Updated Response: Implemented. The Agency contracted with the University of Illinois in October 2003 to conduct an external evaluation of Statewide Implementation and this was submitted in August 2004 as an addendum to the FY03 Annual Report. The University's contracted services also provides for assistance in the preparation of the FY04 and FY05 reports. The FY04 Annual Performance Report was prepared with data collected by the University of Illinois. The contract with the University of Illinois has been extended through August 31, 2006.

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The FY04 Annual Performance Report for Reading First was reviewed by the Curriculum and Instruction Division Administrator and submitted in November 2004.

4-50. Establish procedures to track the actual cash activity for each federal program. Additionally, ISBE should establish written procedures for the calculation of the interest liability to ensure that it is performed in accordance with the TSA.

Findings: SBE did not properly calculate the interest liability for the Title One, Special Education, and Improving Teacher Quality State Grants programs for FY04.

Annually, the State negotiates the Treasury-State Agreement (TSA) with the U.S. Department of the Treasury which details the funding techniques required to be used for the draw down of federal funds. Some of the funding techniques utilized result in the State earning interest on funds received in advance of disbursement. The TSA requires the State to calculate an interest liability for the programs listed above based on the average daily balance for each program.

The auditors noted SBE does not track the actual cash activity for each federal program by its own account. There is only one fund maintained at the Comptroller's Office for all education programs. The TSA states that the average daily balance should be calculated using the actual activity of each draw, from the date of deposit to the date of issuance or clearance, as reflected in each program's account.

Response: The Agency agrees that calculations should be performed in accordance with the TSA. ISBE has requested an amendment to the language in the fiscal year 2005 and fiscal year 2006 TSA to state: "The average daily balance of Federal Funds in the fund's account reflects the actual activity of each draw from the date of deposit to the date of issuance or clearance, whichever is pertinent." This would allow the Agency to track and calculate by fund which is in alignment with the Comptroller records.

Updated Response: Implemented. The Agency requested an amendment to the language in the FY05 and FY06 Treasury-State Agreement to state: "The average daily balance of Federal Funds in the fund's account reflects the actual activity of each draw from the date of deposit to the date of issuance or clearance, whichever is pertinent." This would allow the Agency to track and calculate by fund which is in alignment with the Comptroller records. The requested amendment to the language in the Treasury-State Agreement was approved by the Federal Government in June 2005.

4-51. Reconcile the monthly ASAP reports to the accounting records within MIDAS on a timely basis throughout the year to ensure that cash draws are properly accounted for and recorded in MIDAS.

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Findings: SBE did not complete all of its monthly reconciliation between the Automated Standard Application for Payments System (ASAP) and the Agency's accounting system (MIDAS). SBE draws its Department of Agriculture funding using ASAP. ASAP is a web-based program that requires the user to enter data consisting of the draw amount, date, grant number, etc. The information entered into ASAP is also entered into MIDAS. SBE's procedures require that reconciliation between these two systems be prepared on a monthly basis by the fiscal consultant (employee) and reviewed by the division administrator.

The auditors noted SBE did not prepare the reconciliations on a monthly basis. SBE only performed three reconciliations during FY04.

Updated Response: Implemented. In April 2004, upon receipt of the FY03 audit findings, The Agency immediately began performing the reconciliations on a monthly basis. All monthly reconciliations have been completed during FY05 and the reconciliations continue to be performed on a monthly basis.

4-52. Establish a review period of not more than 60 days from the receipt of the OMB Circular A-133 audit reports. (Repeated-2002)

Findings: SBE did not review A-133 audit reports received from its subrecipients timely. Subrecipients who receive more than \$500,000 in federal awards from SBE are required to submit A-133 audit reports. The funding and disbursements division initially reviews these reports. A "single audit desk review sheet" checklist is used to assist in evaluating the impact of findings. If findings are reported, a review form is completed and forwarded with the A-133 audit report to the respective SBE program fiscal consultant for follow-up and resolution. The findings are logged and tracked in a database.

The auditors selected a total sample of 133 subrecipient monitoring files to review. The auditors noted that for 38 subrecipient files, SBE had not completed the desk review of the A-133 report within 60 days of receipt. The programs involved expended more than \$1.485 billion.

Updated Response: Implemented. The Agency agrees that the review period should allow ample time for management decisions to be issued in accordance with the federal requirements. In FY04, the Agency implemented several FY03 audit recommendations. All subrecipients file either an A-133 audit or a statement certifying that an A-133 audit is not required, ensuring that the ISBE review process is complete. The Agency also implemented a two-tiered review process to further ensure that all Federal A-133 compliance requirements regarding the timelines pertaining to the issuance of management decisions are met. The Agency successfully completed both of these improved processes.

In FY04, the Agency met the Federal OMB Circular A-133 requirements regarding the timelines for the issuance of management decisions within 180 days. The Agency

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believes it has again met these federal compliance requirements for FY05. Federal requirements require only that the Agency have adequate controls in place to ensure that compliance requirements are met. While the Agency may not always meet the sixty-day auditor-determined control timelines, the Agency will to continue to ensure that controls are adequate to allow ample time for all audits subject to management decisions to be reviewed within the time frame required by the OMB A-133 Circular.